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¶1. (U) Summary. This is Volume 7, issue 21 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- There's No Stopping SA's Economy
- Debate On Widening Current Account Deficit
- Woolworths in R292m BEE Employee Deal
- Construction Industry 'Hurtling Towards Huge Growth'
- Tax Overruns Help Treasury to Buy Back Debt
- Land Claims Will Again Miss Deadline
End Summary.

There's No Stopping SA's Economy

¶2. (U) According to the Bureau for Economic Research (BER), the South African economy will grow faster than anticipated in the short term, buoyed by resilient consumer demand, fierce momentum in fixed investment, and stronger export growth. BER said it expected gross domestic product (GDP) to expand by 4.8% in 2007 and 5% in 2008, compared with its first-quarter estimates of 4.5% growth for both years. The BER said previous expectations of a more constraining growth environment in 2007 have thus far not materialized. The economy expanded by 5% last year, after growing by 5.1% in 2005, levels which the South African Reserve Bank (SARB) believes exceed a sustainable growth rate of 4.5%, and may generate capacity constraints. The government plans to spend R416 billion ($60 billion) on infrastructure over the next three years, to boost the annual growth rate to a sustainable 6% by 2010. So far, the faster economic growth has been driven mainly by consumer demand, a trend which remains firmly in place despite higher interest rates. The BER said it had revised its forecasts for all three demand components of GDP upwards, including household consumption, fixed investment and exports. (Business Day & I-Net Bridge, May 17, 2007)

Debate On Widening Current Account Deficit

¶3. (U) Debate is swirling over the threat to the economy of the ballooning deficit on the current account, widely seen as the main

weakness in an otherwise robust economy. The shortfall in what is considered the broadest measure of trade in goods and services ballooned to 6.4% of gross domestic product (GDP) last year, the widest gap since 1971, when it reached 7.5%. Deputy Finance Minister Jabu Moleketi acknowledged last week that the deficit was unlikely to shrink soon, given the government's infrastructure spending plans and preparations for the 2010 Soccer World Cup. But he maintained that the trend was healthy because it reflected imports of capital goods needed to expand the economy's capacity, which is being tested by robust demand and investment. Although the growing deficit leaves the rand vulnerable to swings in global sentiment, the South African Reserve Bank believes there is no cause for alarm because the current account deficit is being covered by strong capital inflows, amounting to about R100 billion ($14.3 billion) over each of the past three years. Economists generally agree. The Bureau for Economic Research (BER) said in its latest outlook that deficits of more than 7% of GDP were "not uncommon" and a "significant" number of countries had run large deficits for more than five years. However, the BER highlighted the potential risk if global sentiment swings in the wrong direction, causing capital flows to dry up, knocking the rand lower, and igniting inflation with the higher cost of imported goods. Portfolio inflows into bonds and equities have amounted to about R42 billion ($6 billion) so far this year, as against R64.5 billion ($9.2 billion) in the corresponding period last year. SARB data showed that foreign direct investment, the most stable form of capital flow, shifted from an inflow of R12.2 billion ($1.7 billion) in the first half of 2006 to an outflow of R14.3 billion ($2 billion) in the second half. (Business Day, May 22, 2007)

Woolworths in R292m BEE Employee Deal

¶4. (U) Woolworths Holdings announced a black economic empowerment (BEE) deal, whereby Woolworths employees would acquire about 10% of the group's ordinary issued share capital. In terms of the deal,

Woolworths will create a new class of convertible, redeemable, non-cumulative participating preference shares with a par value of 15 cents each. Woolworths has estimated the economic cost of entering into the BEE transaction to be about R292 million ($42 million). This represents about 1.38% of Woolworth's market capitalization of nearly R21.1 billion ($3 billion). All Woolworths employees who were employed as of May 1, 2007 and who are still employed as of the initial vesting date, which is expected to be June 30, 2007, will be able to participate in the BEE transaction, with the exception of white managers and executives. About 17,000 employees will participate in the transaction, of whom 90% are black and 85% are women. The BEE transaction will require the approval of Woolworths ordinary shareholders at a general meeting to be held on June 12. (I-net Bridge, May 21, 2007)

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Construction Industry 'Hurtling Towards Huge Growth'
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¶5. (U) The South African construction industry will double in size over the next six to seven years, spurred mainly by the government's massive infrastructure spending drive, says a former top executive from the sector. Mike Lomas, former Chief Executive Officer (CEO) of the Group 5 construction firm, said the trend would magnify growing capacity constraints and exacerbate a skills shortage in the sector, but he believed the construction industry would be able to take on the challenge. Currently the industry has a huge demand for civil engineers and artisans as registered artisans have dropped from 33,000 in 1975 to 1,440 in 2005. Lomas foresaw that in the next six to seven years the industry would have to increase its business capacity by 89%, and would need an additional 11,000 engineers and 50,000 artisans. According to Statistics South Africa (StatsSA) data, construction industry is the fastest-growing sector of the economy, having expanded by 11% in 2004, 11.9% in 2005 and 13.3% in 2006. The construction sector's contribution to overall gross domestic product (GDP) is 2.8%. However, some analysts believe this figure may be understated, given that the survey is unlikely to reflect all subcontractors. Industry experts expect the

growth momentum to continue beyond the 2010 Soccer World Cup as construction of soccer stadiums forms only a small part of the government's plans to spend R416 billion ($60 billion) on power plants, ports, rail and road infrastructure over the next three years. Private sector building figures released by StatsSA this week showed the construction boom is still going strong, with the total value of building plans approved in March up 11.8% compared with the same month last year, after an 8.3% rise in February. Formal jobs in the labor-intensive construction sector had risen from 60,000 three years ago to an impressive 100,000 today. (Business Day, May 18, 2007)

Tax Overruns Help Treasury to Buy Back Debt

¶6. (U) The South African National Treasury will buy back $1.2 billion of foreign debt, most of which is due to mature in 2008 and 2009, using new bond issues and tax overruns. National Treasury Director General Lesetja Kganyago said a new $1 billion bond, which would mature in 2022, would be issued and $217 million of tax revenue overruns would be paid out. The new bond would be at a lower interest rate than the old one, meaning there would be savings, Kganyago said. By pushing out the maturity date of the principal repayments, South Africa's external vulnerability would be reduced. He said retiring debt was the best use of tax overruns. Because the new bond would be so large, Kganyago said, it would attract interest in international markets and would be liquid. (Business Report, May 17, 2007)

Land Claims Will Again Miss Deadline

¶7. (U) Agriculture and Land Affairs Minister Lulu Xingwana said that a second deadline for the conclusion of claims in the land restitution process would be missed. So far, 74,417 claims have been finalized, representing 93%, out of a total of 79,696. She said about a third of the remaining 5,279 claims would not be finalized by the March 2008 deadline. President Thabo Mbeki declared in 2004 that the land restitution process was too slow and ordered it completed by December 2005. When that deadline was

missed, the completion date was extended to March 2008. Xingwana blamed the delay on the lengthy adjudication process in the Land Claims Court, conflicts among traditional leaders over jurisdiction, land ownership and boundary disputes between communities, disputes with current landowners on issues such as land prices or the validity of the claims, and claimants who cannot be traced. On the issue of redistributing 30% of white-owned farm land to blacks by 2014, Xingwana indicated that more money would have to be made available to achieve the target. The agriculture sector has long insisted that if the government bought up agricultural land that became available on the open market, there would be enough land available to satisfy the redistribution program. (Business Day, May 21, 2007)
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